

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name City of Montague, Michigan	County Muskegon
Fiscal Year End 06/30/06	Opinion Date 09/01/06	Date Audit Report Submitted to State 12/5/06	

We affirm that:

We are certified public accountants licensed to practice in Michigan

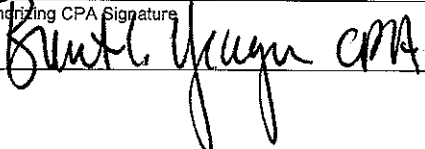
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO **Check each applicable box below** (See instructions for further detail)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury
4. ☒ ☐ The local unit has adopted a budget for all required funds
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin)
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD) If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years
12. ☒ ☐ The audit opinion is UNQUALIFIED
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP)
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>	None issued - not required	
Certified Public Accountant (Firm Name) Pridnia LaPres, PLLC		Telephone Number (231) 739-9441	
Street Address 3145 Henry St., Ste. 200		City Muskegon	State MI
Zip 49441			
Authorizing CPA Signature 	Printed Name Brent C. Yeager, CPA	License Number 1101021594	

City of Montague, Michigan

Comprehensive Annual Financial Report Year Ended June 30, 2006

City of Montague, Michigan

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City of Montague, Michigan

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City of Montague, Michigan

List of Elected and Appointed Officials

June 30, 2006

Elected Officials

Mayor	Henry E. Roesler, Jr
Mayor Pro Tem	Calvin Cederquist
Council Members	Thomas Lohman Brandon Mahoney Darric Roesler Kevin Standfuss Charles Townsend

Appointed Officials

City Manager	John French
City Clerk	Melinda O'Connell
Finance Officer/Treasurer	Susanne Krawczyk
Police Chief	Robert Rought
Utility Clerk	Laurie Robillard
DPW Superintendent	Tom Kroll
Administrative Assistant	Matt Miller

Independent Auditors' Report

To the Honorable Mayor and Members of the City Council
City of Montague, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Montague, Michigan, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Montague, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Montague, Michigan, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis, budgetary comparison information and schedule of funding progress on pages 9 through 15 and pages 64 through 67 are not a required part of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Montague, Michigan's basic financial statements. The combining funds statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining funds statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Prudencia LaPres, PLLC

Muskegon, Michigan
September 1, 2006

City of Montague, Michigan

Management's Discussion and Analysis

June 30, 2006

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. This report consists of a series of financial statements for the City of Montague, Michigan as of June 30, 2006. The City of Montague, Michigan's basic financial statements are comprised of three components:

1. Governmental-wide financial statements
2. Fund financial statements
3. Notes to the financial statements

The Statement of Net Assets and the Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements.

This report also contains other required supplementary information in addition to the basic financial statements themselves.

FINANCIAL HIGHLIGHTS

At the close of the fiscal year the City of Montague, Michigan had total government-wide (governmental and business-type activities) assets of \$14,955,348 and total liabilities of \$1,747,496, leaving net assets of \$13,207,852. Of this amount, \$3,416,593 (unrestricted net assets) may be used to meet the ongoing obligations in all activities to citizens and creditors.

The largest portion of the net assets of the City is capital assets. Capital assets account for \$10,570,468, or 71%, of the total net assets, which primarily consists of water and sewer systems.

Business-type functions had operating income of \$65,072, comprised of Sewer income of \$46,061, Water loss of \$2,589, Launch Ramp income of \$22,069 and Campground loss of \$469. The main reason for the increase in the combined enterprise funds was the capital contributed from DuPont and Occidental Chemical.

OVERVIEW OF THE FINANCIAL STATEMENTS

Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the City's finances. The statements are similar to those of a private sector business.

The Statement of Net Assets presents information of all the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities presents information showing how the City's net assets changed during the fiscal year. All changes in net assets are reported when the event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenditures are reported in this statement for some items that will only result in cash flows in the future fiscal periods.

City of Montague, Michigan

Management's Discussion and Analysis

June 30, 2006

Both of the government-wide statements mentioned above distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are designed to recover all or a significant part of their costs through user fees and charges for services (business-type activities). The government activities of the City include general government, public safety, public works, community and economic development, and cultural and recreational activities. The business-type activities of the City include the campground, launch ramp, and water and sewer services.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories; governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. Unlike the government-wide financial statements, government fund financial statements focus on current sources, uses, and balances of spendable resources available at the end of the fiscal year. This information may be useful in evaluating a governmental entity's short-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between the two.

The City maintains eleven individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and Major Streets Fund, both of which are considered to be major funds. Data from the other funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

Proprietary Funds

The City of Montague, Michigan has two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water distribution, campground, launch ramp and sewer operations. Internal service funds are an accounting device used to accumulate and allocate costs of equipment used to the individual funds. Because this service predominantly benefits governmental rather than business-type functions, it has been included primarily within governmental activities in the governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary funds financial statements provide separate information for Water, Campground, Launch Ramp and Sewer Funds, of which Water and Sewer are major funds. The internal service fund is presented in its own column on the proprietary funds financial statements.

City of Montague, Michigan

Management's Discussion and Analysis

June 30, 2006

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected on the government-wide financial statements because the resources from those funds are not available to support the City's programs. The accounting method used for fiduciary funds is much like that used for the proprietary funds.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The reader is encouraged to include the reading of this section in any attempt to analyze and understand these statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's budgetary information as it relates to the actual expenditures for the General Fund.

The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the required supplementary information on budgetary information.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

City of Montague, Michigan's Net Assets

Recall that the statement of net assets provides the perspective of the City as a whole. The following table provides a summary of the City's net assets. As of June 30, 2006 the City's net assets from governmental activities totaled \$5,367,972 and \$7,839,880 from business-type activities, a government-wide net asset total of \$13,207,852. As of June 30, 2005, the City's total net assets were \$12,744,358, comprised of \$5,668,506 from governmental activities and \$7,075,852 from business-type activities.

In examining composition of assets, the reader should note that the amount of governmental activities invested in capital assets (i.e., streets, buildings, furniture and equipment, etc.) are used to provide services to the residents, and are not available to pay salaries, operational expenses or fund capital projects.

June 30,	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	2006	2005	2006	2005	2006	2005
Current and other assets	\$ 2,649,613	\$ 2,760,110	\$ 1,735,267	\$ 2,113,316	\$ 4,384,880	\$ 4,873,426
Capital assets	3,112,471	3,334,255	7,457,997	6,841,205	10,570,468	10,175,460
Total Assets	5,762,084	6,094,365	9,193,264	8,954,521	14,955,348	15,048,886
Long-term liabilities	287,785	319,348	1,077,356	1,186,563	1,365,141	1,505,911
Other liabilities	106,327	106,511	276,028	692,106	382,355	798,617
Total Liabilities	394,112	425,859	1,353,384	1,878,669	1,747,496	2,304,528
Net assets						
Invested in capital assets, net of related debt	2,867,471	3,054,255	6,295,791	5,553,468	9,163,262	8,607,723
Restricted	176,776	759,291	451,221	-	627,997	759,291
Unrestricted	2,323,725	1,854,960	1,092,868	1,522,384	3,416,593	3,377,344
Total Net Assets	\$ 5,367,972	\$ 5,668,506	\$ 7,839,880	\$ 7,075,852	\$ 13,207,852	\$ 12,744,358

City of Montague, Michigan

Management's Discussion and Analysis

June 30, 2006

The City realized a 3.6% increase in net assets, increasing \$463,494 from fiscal year 2005 to fiscal year 2006. Capital grants contributed to the increase, including the township water project and bike trail extension. Also contributing to this increase was growth in property tax revenues, investment income and the sale of land for \$75,000.

Ongoing water projects, involving the looping of the distribution system in Montague and White River townships are financed entirely from an escrow fund with monies from DuPont and Occidental Chemical. Construction of a new production well on Ochs Road in Montague Township, capable of producing over 700 gallons per minute, was scheduled for completion in late 2006.

Dowling Street (between Water Street and Ferry Street), and Hunt Street (between Water Street and Stebbins Street) were removed and reconstructed including curb and gutter, underground storm drainage, and water main replacement.

Electrical service throughout the entire Trailway Campground was upgraded including new pedestals to all 53 sites.

The City's combined total assets decreased \$93,538, or approximately .62%, from a year ago. The decrease is due in part to the removal of the Montague Fire District as a blended unit and the downward adjustment of debt owed to the City upon completion of the Skite property transaction (Montague Foods). The Montague Fire District became an independent entity as of June 20, 2006.

City of Montague, Michigan's Changes in Net Assets

The results of this year's operations for the City as a whole are reported in the statement of activities, which shows the changes in net assets for fiscal year 2006.

A comparison to fiscal year 2005 revenues has also been included.

City of Montague, Michigan

Management's Discussion and Analysis

June 30, 2006

Year ended June 30,	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenues						
Program revenues						
Charges for services	\$ 336,793	\$ 344,499	\$ 1,095,323	\$ 988,277	\$ 1,432,116	\$ 1,332,776
Operating grants and contributions	306,068	246,873	-	-	306,068	246,873
Capital grants and contributions	-	1,338	695,797	365,414	695,797	366,752
General revenues						
Property taxes	1,341,038	1,318,709	-	-	1,341,038	1,318,709
Grants and contributions not restricted to specific programs	230,147	227,961	-	-	230,147	227,961
Other	(593,512)	72,654	47,651	31,843	(545,861)	104,497
Total revenues	1,620,534	2,212,034	1,838,771	1,385,534	3,459,305	3,597,568
Expenses						
General government	566,098	539,263	-	-	566,098	539,263
Public safety	879,738	747,616	-	-	879,738	747,616
Public works	338,455	386,877	-	-	338,455	386,877
Economic development	-	2,009	-	-	-	2,009
Culture and recreation	121,287	144,173	-	-	121,287	144,173
Interest on long-term debt	15,490	18,317	-	-	15,490	18,317
Sewer	-	-	406,657	401,852	406,657	401,852
Water	-	-	524,215	362,332	524,215	362,332
Boat launching ramp	-	-	24,790	24,316	24,790	24,316
Campground	-	-	119,081	43,112	119,081	43,112
Total expenses	1,921,068	1,838,255	1,074,743	831,612	2,995,811	2,669,867
Change in net assets before transfers	(300,534)	373,779	764,028	553,922	463,494	927,701
Transfers	-	40,000	-	(40,000)	-	-
Change in net assets	(300,534)	413,779	764,028	513,922	463,494	927,701
Net assets - July 1, as restated	5,668,506	5,254,727	7,075,852	6,561,930	12,744,358	11,816,657
Net assets - June 30	\$ 5,367,972	\$ 5,668,506	\$ 7,839,880	\$ 7,075,852	\$ 13,207,852	\$ 12,744,358

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As stated earlier in this discussion and analysis, the City of Montague, Michigan uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances in spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balances may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

City of Montague, Michigan

Management's Discussion and Analysis

June 30, 2006

At the end of the 2006 fiscal year, the governmental funds reported a combined fund balance of \$2,088,198. Of this amount, \$1,786,119 represents the unreserved fund balance, comprised of \$963,672 in the General Fund, \$286,576 in the Major Streets Fund, and net balance of \$535,871 in other governmental funds. It is necessary to further distinguish between unreserved and reserved fund balance. The unreserved balance represents what is available for spending at the City's discretion. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed to advances (\$50,000), debt service (\$5,994), prepaid items (\$75,303) and perpetual care (\$170,782). As of June 20, 2006 the Montague Fire District became its own separate entity, filing Articles of Incorporation pursuant to the provisions of Act 57, Public Acts of Michigan, 1988 as amended.

The General Fund is the chief operating fund of the City. The General Fund pays for administration, public safety, general public works, assessments, elections, legal, recreation, garbage collection, boards and commissions, and other minor functions. Fund balance increased in the General Fund by \$104,488. This increase is due in part to increased value in both the ad valorem tax roll and the Industrial Facilities Abatement roll resulting in increased revenues of \$22,329. Sales of property in the downtown amounted to added revenues of \$75,000. Transfers out to other funds went up from \$278,500 in 2004-05 to \$322,083 in 2005-06. Major Streets fund balance increased by \$52,310 due in part to transfers in from General Fund for infrastructure projects.

Proprietary funds

The City's proprietary funds provide the same type of information found in the governmental financial statement, but in more detail. Net assets of the Sewer fund were increased by \$52,743 due primarily to an increase in the replacement fund of \$103,462. Net assets of the Water fund increased by \$685,390 primarily due to capital contributions of \$695,797 from DuPont and Miller Springs for the construction of the new well and water main expansion in Montague and White River Townships.

Budget Analysis – General Fund

At various times throughout any budget year, budget amendments are needed to reflect changing financial conditions and changes to financial policy. The revenues budget was increased \$65,945 to reflect the sale of property in the downtown and an increase in interest revenue. Other lines items that were amended upward included \$9,760 for Buildings and Grounds; \$9,825 for Parks; \$13,250 for Public Works; and \$20,770 for Police.

Capital Asset Administration

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2006 totaled \$10,570,468 (net of accumulated depreciation). Investment in capital assets includes infrastructure, land and land improvements, water and sewer systems, buildings, machinery and equipment. Improvements to land improvements and infrastructure totaling \$279,745 included work on Dowling Street, Hunt Street and the Medbery Bike Trail. Water and sewer system improvements totaling \$747,837 included work on Dowling Street and Hunt Street, as well as on the distribution system outside the City in Montague and White River townships.

Debt Administration

As of June 30, 2006 the City had outstanding long-term liabilities of \$1,516,368 of which \$151,227 is due within one year.

City of Montague, Michigan

Management's Discussion and Analysis

June 30, 2006

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Economic Factors and Next Year's Budget and Rates

The City of Montague, Michigan's 2006-07 budget calls for a half mill decrease in the City Operating Millage, from 16.25 mills to 15.75 mills. A portion of this millage reduction was made possible by a successful public vote which resulted in an operation millage for the Muskegon Area District Library, which in effect replaced approximately \$20,000 in annual in-kind operational costs of the Library Branch at City Hall.

Daily, weekly, monthly, and seasonal rates at the City's Trailway Campground were increased slightly, while the daily and season permits at the Municipal Boat Launch remained unchanged. Despite the City's operational millage decrease for the third fiscal year in a row, the City anticipates an increase in total property tax collections as the City's taxable value continues to increase due in part to the uncapping of value for homes sold. Other factors that will contribute to this taxable value increase include new homes built throughout the City, as well as new investment in the Industrial Park and the downtown.

Other new and/or ongoing projects the City is planning on advancing during 2006-07 include the completion of the grinder pump replacement project; the paving of several of the gravel drives in the Oak Grove Cemetery; the removal and replacement of Dowling Street between Cook Street and Meade Street; water main replacement on four blocks of Onsikamme Street; six blocks of street replacement and underground storm drainage improvements on Onsikamme Street and portions of Cook Street and Ravine Street; replacement and upgrade of the network file server and operating system at City Hall; expanded parking and better ingress and egress of the Municipal Boat Launch; continued improvements and repairs to City Hall including interior painting and carpet replacement as well as furnace and air conditioning replacement; and the purchase of a second optical scan voting machine.

Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, residents, voters, customers and investors with a general overview of The City's finances as well as to depict the City's accountability for the money it receives and spends. If you have questions about this report or need additional information, we welcome you to contact City Hall at 231-893-1155. Montague City Hall, located at 8778 Ferry Street, Montague, MI 49437, is open Monday through Friday from 8:00 AM to 5:00 PM excluding most national holidays.

<i>June 30, 2006</i>	Primary Government		Total
	Governmental Activities	Business-Type Activities	
Assets			
Cash and investments	\$ 2,102,108	\$ 881,368	\$ 2,983,476
Receivables			
Accounts	1,239	184,989	186,228
Special assessments	1,292	250	1,542
Notes	230,000	-	230,000
Due from other governmental units	189,671	275	189,946
Internal balances	50,000	(50,000)	-
Inventories	-	43,048	43,048
Prepaid items	75,303	-	75,303
Restricted assets	-	451,221	451,221
Capital assets, net	3,112,471	7,457,997	10,570,468
Bond issue costs, net	-	49,644	49,644
Access rights, net	-	174,472	174,472
Total Assets	5,762,084	9,193,264	14,955,348
Liabilities and Net Assets			
Accounts payable and accrued liabilities	68,903	76,249	145,152
Due to other governmental units	1,357	-	1,357
Customer deposits	-	1,751	1,751
Deferred revenue	-	81,801	81,801
Bonds, capital leases and contracts, due within one year	35,000	116,227	151,227
Accrued interest, due within one year	1,067	-	1,067
Bonds, capital leases and contracts, less amounts due within one year	210,000	1,045,979	1,255,979
Compensated absences	77,785	31,377	109,162
Total Liabilities	394,112	1,353,384	1,747,496
Net Assets			
Invested in capital assets, net of related debt	2,867,471	6,295,791	9,163,262
Restricted for			
Debt service	5,994	130,970	136,964
Perpetual care	170,782	-	170,782
Replacement	-	320,251	320,251
Unrestricted	2,323,725	1,092,868	3,416,593
Total Net Assets	\$ 5,367,972	\$ 7,839,880	\$ 13,207,852

City of Montague, Michigan

Statement of Net Assets



Component Units			
Downtown Development Authority		Tax Increment Finance Authority	
\$	655	\$	279,934
	-		-
	-		-
	-		-
	-	8,550	
	-		-
	-		-
	-		-
	-	45,767	
	-		-
	-		-
	655		334,251
	-	669	
	-		-
	-		-
	-		-
	-		-
	-		-
	-		-
	-	669	
	-	45,767	
	-		-
	-		-
	-		-
	655		287,815
\$	655	\$	333,582

The accompanying notes are an integral part of this statement.

Year ended June 30, 2006	Expenses	Program Revenues			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary Government					
Governmental activities					
General government	\$ 566,098	\$ 33,557	\$ -	\$ -	
Public safety	879,738	261,507	1,405	-	
Public works	338,455	41,729	304,663	-	
Culture and recreation	121,287	-	-	-	
Interest on long-term debt	15,490	-	-	-	
Total Government Activities	1,921,068	336,793	306,068	-	
Business-type activities					
Sewer	406,657	430,121	-	-	
Water	524,215	499,731	-	695,797	
Boat launching ramp	24,790	46,859	-	-	
Campground	119,081	118,612	-	-	
Total Business-Type Activities	1,074,743	1,095,323	-	695,797	
Total Primary Government	\$ 2,995,811	\$ -	\$ 1,432,116	\$ 306,068	\$ 695,797
Component Units					
Downtown Development Authority	\$ -	\$ -	\$ -	\$ -	
Tax Increment Finance Authority					
Public works	50,521	-	-	-	
Depreciation	512	-	-	-	
Total Tax Increment Finance Authority	51,033	-	-	-	
Total Component Units	\$ 51,033	\$ -	\$ -	\$ -	
General Revenues					
Property taxes					
Grants and contributions not restricted to specific programs					
Investment income					
Other					
Special item - loss on sale or disposal of capital assets					
Special item - contributions to other governmental units					
Total General Revenues, Special Items, and Transfers					
Change in Net Assets					
Net Assets, beginning of year, as restated (Note 16)					
Net Assets, end of year					

City of Montague, Michigan

Statement of Activities

Net (Expense) Revenue and Changes in Net Assets					
Total	Primary Government		Total	Component Units	
	Governmental Activities	Business-Type Activities		Downtown Development Authority	Tax Increment Finance Authority
\$ 33,557	\$ (532,541)	\$ -	\$ (532,541)	\$ -	\$ -
262,912	(616,826)	-	(616,826)	-	-
346,392	7,937	-	7,937	-	-
-	(121,287)	-	(121,287)	-	-
-	(15,490)	-	(15,490)	-	-
642,861	(1,278,207)	-	(1,278,207)	-	-
430,121	-	23,464	23,464	-	-
1,195,528	-	671,313	671,313	-	-
46,859	-	22,069	22,069	-	-
118,612	-	(469)	(469)	-	-
1,791,120	-	716,377	716,377	-	-
<u>\$ 2,433,981</u>	<u>(1,278,207)</u>	<u>716,377</u>	<u>(561,830)</u>	<u>-</u>	<u>-</u>
\$ -	-	-	-	-	-
-	-	-	-	-	(50,521)
-	-	-	-	-	(512)
-	-	-	-	-	(51,033)
<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(51,033)</u>
1,341,038	-	1,341,038	-	225,683	
230,147	-	230,147	-	-	
84,021	47,651	131,672	21	10,113	
45,956	-	45,956	-	-	
(364,700)	-	(364,700)	-	-	
(358,789)	-	(358,789)	-	-	
977,673	47,651	1,025,324	21	235,796	
(300,534)	764,028	463,494	21	184,763	
5,668,506	7,075,852	12,744,358	634	148,819	
<u>\$ 5,367,972</u>	<u>\$ 7,839,880</u>	<u>\$ 13,207,852</u>	<u>\$ 655</u>	<u>\$333,582</u>	

The accompanying notes are an integral part of this statement.

City of Montague, Michigan

Governmental Funds

Balance Sheet

<i>June 30, 2006</i>	General Fund	Major Street	Non-Major Governmental Funds	Total Governmental Funds
Assets				
Cash and investments	\$ 899,775	\$ 269,544	\$ 672,287	\$ 1,841,606
Receivables				
Accounts	1,239	-	-	1,239
Special assessments	1,292	-	-	1,292
Notes	230,000	-	-	230,000
Due from other governmental units	80,611	28,224	80,836	189,671
Prepaid items	75,303	-	-	75,303
Advances to other funds	50,000	-	-	50,000
Total Assets	\$1,338,220	\$ 297,768	\$ 753,123	\$ 2,389,111
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 15,421	\$ 11,192	\$ 38,415	\$ 65,028
Accrued liabilities	-	-	2,061	2,061
Due to other governmental units	1,357	-	-	1,357
Deferred revenue	232,467	-	-	232,467
Total Liabilities	249,245	11,192	40,476	300,913
Fund Balances				
Reserved for prepaid items	75,303	-	-	75,303
Reserved for debt service	-	-	5,994	5,994
Reserved for advances	50,000	-	-	50,000
Reserved for perpetual care	-	-	170,782	170,782
Unreserved				
Designated				
Special revenue funds	-	-	74,650	74,650
Undesignated				
General fund	963,672	-	-	963,672
Special revenue funds	-	286,576	376,375	662,951
Capital project funds	-	-	84,846	84,846
Total Fund Balances	1,088,975	286,576	712,647	2,088,198
Total Liabilities and Fund Balances	\$1,338,220	\$ 297,768	\$ 753,123	\$ 2,389,111

The accompanying notes are an integral part of this statement

City of Montague, Michigan

Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets

Year ended June 30, 2006

Total Fund Balance - Governmental Funds	\$2,088,198
------------------------------------------------	--------------------

Amounts reported for governmental activities in the Statement of
Net Assets are different because:

Capital assets used in governmental activities are not financial
resources and are not reported in the governmental funds.

Cost of capital assets	\$ 3,561,976	
Accumulated depreciation	<u>(677,226)</u>	2,884,750

Certain revenues that do not provide current financial resources are not reported in the governmental funds.	232,467
-----------------------------------------------------------------------------------------------------------------	---------

Internal service funds are used by management to charge the costs of equipment used to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Assets.	486,409
----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	---------

Long-term liabilities in governmental activities are not due and payable in the current period and are not reported in the governmental funds.	
Long-term liabilities	(245,000)
Compensated absences	<u>(77,785)</u>
	(322,785)

Accrued interest in governmental activities is not reported in the governmental funds.	(1,067)
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Net Assets of Governmental Activities in the Statement of Net Assets	\$5,367,972
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The accompanying notes are an integral part of this statement

City of Montague, Michigan

Governmental Funds

Statement of Revenues, Expenditures and Changes in Fund Balances

<i>Year ended June 30, 2006</i>	General Fund	Major Street	Non-Major Governmental Funds	Total Governmental Funds
Revenues				
Property taxes	\$1,341,038	\$ -	\$ -	\$ 1,341,038
Licenses and permits	17,088	-	63,425	80,513
Intergovernmental revenues				
Federal	-	-	70,690	70,690
State	230,147	162,334	71,639	464,120
Local	1,405	-	-	1,405
Charges for services	38,744	1,671	206,498	246,913
Fines and forfeitures	9,367	-	-	9,367
Investment earnings	41,711	6,410	35,900	84,021
Other	116,593	-	4,363	120,956
Total Revenues	1,796,093	170,415	452,515	2,419,023
Expenditures				
Current				
General government	488,633	-	-	488,633
Public safety	605,803	-	208,290	814,093
Public works	86,554	140,775	85,871	313,200
Culture and recreation	112,237	-	-	112,237
Other governmental functions	40,372	-	-	40,372
Debt service				
Principal	-	-	35,000	35,000
Interest and fees	-	-	15,550	15,550
Capital outlay	46,839	141,330	152,242	340,411
Total Expenditures	1,380,438	282,105	496,953	2,159,496
Excess of revenues over (under) expenditures	415,655	(111,690)	(44,438)	259,527
Other Financing Sources (Uses)				
Transfers in	5,664	164,000	178,083	347,747
Transfers out	(322,083)	-	(25,664)	(347,747)
Proceeds from sale of capital assets	5,252	-	-	5,252
Contributions to other governmental units	-	-	(358,789)	(358,789)
Total Other Financing Sources (Uses)	(311,167)	164,000	(206,370)	(353,537)
Net change in fund balances	104,488	52,310	(250,808)	(94,010)
Fund Balance, at beginning of year	984,487	234,266	963,455	2,182,208
Fund Balance, at end of year	\$1,088,975	\$286,576	\$ 712,647	\$ 2,088,198

The accompanying notes are an integral part of this statement.

City of Montague, Michigan

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities

Year ended June 30, 2006

Net Change in Fund Balances - Total Governmental Funds \$ (94,010)

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets as expenditures; in the Statement of Activities, these costs are depreciated over their estimated useful lives

Depreciation expense	\$ (139,351)	
Capital outlay	<u>325,401</u>	186,050

Proceeds from the sale of capital assets are reported as revenues in the governmental funds; proceeds are netted against net book value in the Statement of Activities and a net resulting gain or loss is recorded. (369,952)

Unearned revenues were previously recognized on the full accrual basis in the Government-Wide Financial Statements. (75,000)

Repayment of principal on long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets 35,000

Accrued interest on long-term debt is recorded in the Statement of Activities when incurred, but is not reported in the governmental funds until paid 60

Compensated absences are reported on the accrual method in the Statement of Activities and reported as expenditures when financial resources are used in the governmental funds. (3,707)

Internal service funds are used by management to charge the costs of equipment used to individual funds. The net revenue of the internal service funds is reported with governmental activities. 21,025

Change in Net Assets of Governmental Activities **\$ (300,534)**

The accompanying notes are an integral part of this statement.

	<u>Enterprise</u>	
<i>June 30, 2006</i>	<u>Sewer</u>	<u>Water</u>
Assets		
Current Assets		
Cash and investments	\$ 566,464	\$ 173,873
Receivables		
Accounts	85,189	99,800
Special assessments	250	-
Intergovernmental	-	275
Inventories	-	43,048
Total Current Assets	651,903	316,996
Non-Current Assets		
Restricted assets	349,265	101,956
Capital assets, net	3,824,575	3,266,399
Access rights, net of amortization	174,472	-
Bond issue costs, net of accumulated amortization	29,406	20,238
Total Non-Current Assets	4,377,718	3,388,593
Total Assets	\$5,029,621	\$ 3,705,589

City of Montague, Michigan

Proprietary Funds

Statement of Net Assets

Funds		
Non-Major		Internal
Enterprise		Service
Funds	Total	Fund
\$141,031	\$ 881,368	\$ 260,502
-	184,989	-
-	250	-
-	275	-
-	43,048	-
141,031	1,109,930	260,502
-	451,221	-
367,023	7,457,997	227,721
-	174,472	-
-	49,644	-
367,023	8,133,334	227,721
\$508,054	\$9,243,264	\$ 488,223

		Enterprise	
<i>June 30, 2006</i>		Sewer	Water
Current Liabilities			
Accounts payable	\$ 9,630	\$ 52,649	
Accrued expenses	-	10,374	
Customer deposits	-	1,751	
Deferred revenue	-	78,969	
Bonds, capital leases and contracts, due within one year	91,227	25,000	
Total Current Liabilities	100,857	168,743	
Non-Current Liabilities			
Advances to other funds	-	-	
Bonds, capital leases and contracts, less amounts due within one year	555,979	490,000	
Compensated absences	11,808	19,569	
Total Non-Current Liabilities	567,787	509,569	
Total Liabilities	668,644	678,312	
Net Assets			
Invested in capital assets, net of related debt	3,177,369	2,751,399	
Restricted for replacement	267,215	53,036	
Restricted for debt service	82,050	48,920	
Unrestricted	834,343	173,922	
Total Net Assets	\$4,360,977	\$ 3,027,277	

City of Montague, Michigan

Proprietary Funds

Statement of Net Assets

Funds		
Non-Major Enterprise Funds	Total	Internal Service Fund
\$ 3,596	\$ 65,875	\$ 1,060
-	10,374	754
-	1,751	-
2,832	81,801	-
-	116,227	-
6,428	276,028	1,814
50,000	50,000	-
-	1,045,979	-
-	31,377	-
50,000	1,127,356	-
56,428	1,403,384	1,814
367,023	6,295,791	227,721
-	320,251	-
-	130,970	-
84,603	1,092,868	258,688
\$451,626	\$7,839,880	\$ 486,409

The accompanying notes are an integral part of this statement.

	Enterprise	
<i>Year ended June 30, 2006</i>	Sewer	Water
Revenues		
Charges for services	\$ 430,121	\$ 499,731
Operating Expenses		
Administration	91,453	102,102
Operations	153,530	306,547
Depreciation and amortization	139,077	93,671
Total Operating Expenses	384,060	502,320
Operating Income (Loss)	46,061	(2,589)
Non-Operating Revenues (Expenses)		
Investment income	29,279	14,077
Interest expense	(22,597)	(21,895)
Total Non-Operating Revenues (Expenses)	6,682	(7,818)
Income (Loss) before contributions	52,743	(10,407)
Capital Contributions	-	695,797
Change in Net Assets	52,743	685,390
Net Assets, beginning of year	4,308,234	2,341,887
Net Assets, end of year	\$4,360,977	\$ 3,027,277

City of Montague, Michigan

Proprietary Funds

Statement of Revenues, Expenses and Changes in Net Assets

Funds		
Non-Major Enterprise Funds	Total	Internal Service Fund
\$165,471	\$1,095,323	\$ 177,704
3,019	196,574	-
128,006	588,083	108,154
12,846	245,594	55,824
143,871	1,030,251	163,978
21,600	65,072	13,726
4,295	47,651	7,299
-	(44,492)	-
4,295	3,159	7,299
25,895	68,231	21,025
-	695,797	-
25,895	764,028	21,025
425,731	7,075,852	465,384
\$451,626	\$7,839,880	\$ 486,409

The accompanying notes are an integral part of this statement.

	Enterprise	
<i>Year ended June 30, 2006</i>	Sewer	Water
Cash Flows from Operating Activities		
Receipts from customers	\$ 435,187	\$ 498,273
Payments to suppliers	(188,942)	(322,393)
Payments to employees	(58,925)	(98,024)
Net Cash Provided by Operating Activities	187,320	77,856
Cash Flows from Non-Capital and Related Financial Activities		
Advances from other funds	-	-
Cash Flows from Capital and Related Financing Activities		
Special assessment collections	250	-
Capital contributions	-	695,797
Purchases of capital assets	(3,451)	(767,076)
Decrease in deferred revenue	-	(366,071)
Principal and interest paid on long-term debt	(104,073)	(46,895)
Net Cash Used for Capital and Related Financing Activities	(107,274)	(484,245)
Cash Flow from Investing Activities		
Investment income	29,279	14,077
Net increase (decrease) in cash and investments	109,325	(392,312)
Cash and Investments, beginning of year	806,404	668,141
Cash and Investments, end of year	\$ 915,729	\$ 275,829

City of Montague, Michigan

Proprietary Funds

Statement of Cash Flows

Funds		
Non-Major Enterprise Funds	Total	Internal Service Fund
\$143,120	\$1,076,580	\$ 177,704
(96,943)	(608,278)	(83,641)
(33,683)	(190,632)	(25,594)
12,494	277,670	68,469
50,000	50,000	-
-	250	-
-	695,797	-
(59,252)	(829,779)	(17,942)
-	(366,071)	-
-	(150,968)	-
(59,252)	(650,771)	(17,942)
4,295	47,651	7,299
7,537	(275,450)	57,826
133,494	1,608,039	202,676
\$141,031	\$1,332,589	\$ 260,502

The accompanying notes are an integral part of this statement.

	Enterprise	
<i>Year ended June 30, 2006</i>	Sewer	Water
Reconciliation of cash and investments to the balance sheet		
Cash and investments	\$ 566,464	\$ 173,873
Restricted assets	349,265	101,956
	<u>\$ 915,729</u>	<u>\$ 275,829</u>
Reconciliation of operating income (loss) to net cash provided by operating activities		
Operating income (loss)	\$ 46,061	\$ (2,589)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities		
Depreciation and amortization	139,077	93,671
Change in assets and liabilities		
Receivables, net	5,066	(1,183)
Intergovernmental receivables	-	(275)
Inventories	-	(381)
Accounts payables	(4,784)	(22,932)
Customer deposits	-	(300)
Accrued expenses	1,900	11,845
Deferred revenue	-	-
Net Cash Provided by Operating Activities	<u>\$ 187,320</u>	<u>\$ 77,856</u>
Non-cash financing activities		
Reduction of excess County debt	\$ 16,515	\$ -

City of Montague, Michigan

Proprietary Funds

Statement of Cash Flows

Funds		
Non-Major Enterprise Funds	Total	Internal Service Fund
\$141,031	\$ 881,368	\$ 260,502
-	451,221	-
\$141,031	\$1,332,589	\$ 260,502
\$ 21,600	\$ 65,072	\$ 13,726
12,846	245,594	55,824
-	3,883	-
-	(275)	-
-	(381)	-
1,467	(26,249)	156
-	(300)	-
(1,068)	12,677	(1,237)
(22,351)	(22,351)	-
\$ 12,494	\$ 277,670	\$ 68,469
\$ -	\$ 16,515	\$ -

The accompanying notes are an integral part of this statement.

City of Montague, Michigan

Fiduciary Funds

Statement of Fiduciary Net Assets

	<u>Agency Fund</u>
	Montague Fire District
<i>June 30, 2006</i>	
Assets	
Cash and cash equivalents	\$ 264,058
Prepaid items	3,467
Deposits on equipment	119,931
Capital assets, net	325,802
Total Assets	713,258
Liabilities	
Accounts payable	\$ 989
Accrued liabilities	27,679
Unallocated receipts	684,590
Total Liabilities	\$ 713,258

The accompanying notes are an integral part of this statement.

City of Montague, Michigan

Notes to Financial Statements

1. Summary of Significant Accounting Policies

The financial statements of the City of Montague, Michigan (City) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

Financial Reporting Entity

The City of Montague is a municipal corporation governed by an elected mayor and six-member council. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities are, in substance, part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that it is legally separate from the government.

Blended Component Units

Municipal Building Authority - The City appoints all Board members and approves annual budgets for the Authority, and the legal liability for the general obligation portion of the Authority's debt remains with the City. The Authority is reported as a debt service fund.

White Lake Area Building Board - The City appoints one-third of all Board members of the Building Board and approves its annual budget. The Building Board is reported as a special revenue fund.

Montague Fire District - The City appoints two-sevenths of all Board members to the Fire District and approves its annual budget. The Fire District is reported as a special revenue fund. The Fire District was incorporated as a separate entity and became an Agency fund of the City effective June 20, 2006.

City of Montague, Michigan

Notes to Financial Statements

Discretely Presented Component Units

The discretely presented component units reported by the City include the Tax Increment Finance Authority (TIFA) and Downtown Development Authority (DDA). The TIFA and DDA boards are appointed by the City Council, but the boards, after election, operate as separate entities. The boards can authorize and issue debt independent from the City, but the City has in the past pledged the City's full faith and credit in support of the bonds issued. The TIFA and DDA are presented as governmental fund types.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirement of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

City of Montague, Michigan

Notes to Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

City of Montague, Michigan

Notes to Financial Statements

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Major Street Fund* accounts for money distributed by the State of Michigan for street maintenance.

The City reports the following two major proprietary funds:

The *Sewer Fund* operates the City's sewage pumping station, collection systems and pays for access to the County's sewage treatment plant.

The *Water Fund* operates the City's water distribution system.

Additionally, the City reports the following fund types:

The *Internal Service Fund* accounts for equipment operations to other departments or agencies of the City, on a cost reimbursement basis.

City of Montague, Michigan

Notes to Financial Statements

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

City of Montague, Michigan

Notes to Financial Statements

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds and of the City's internal service funds are charges to customers for sales and services. The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Assets, Liabilities and Net Assets or Equity

Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. All short-term cash surplus are maintained in a cash and investment pool and allocated to each fund based on month-end deposit and investment balances.

The City reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under this standard, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standard also provides that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the City intends to hold the investment until maturity.

City of Montague, Michigan

Notes to Financial Statements

The City has adopted an investment policy in compliance with State of Michigan statutes. Those statutes authorize the City to invest in obligations of the United States, certificates of deposit, prime commercial paper, securities guaranteed by United States agencies or instrumentalities, United States government or federal agency obligation repurchase agreements, bankers acceptances, state-approved investment pools and certain mutual funds.

The component unit's cash and investments are maintained within the City's investment pool.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of allowance for uncollectibles.

City of Montague, Michigan

Notes to Financial Statements

The City bills and collects its own property taxes. Taxes levied on July 1 are due without penalty on or before August 31. The property taxes attach as an enforceable lien on property as of July 1. Uncollected real property taxes as of the following March 1 are turned over by the City to the County for collection. The County advances the City all of these delinquent real property taxes. Collection of delinquent personal property taxes as of March 1 remains the responsibility of the City Treasurer. Since substantially all City property taxes levied are current receivables, tax revenues are recognized when levied.

The 2005 taxable value for real/personal property of the City totaled \$73,853,313 of which \$8,525,751 was captured by the TIFA. The ad valorem taxes levied consisted of 16.25 mills for the City's operating purposes. These amounts are recognized in the respective General Fund and TIFA Fund.

Inventories and Prepaid Items

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets

Certain proceeds of the Enterprise Fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants.

City of Montague, Michigan

Notes to Financial Statements

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$2,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The City has elected to capitalize infrastructure assets using the prospective approach, from fiscal year 2004 forward.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant and equipment of the primary government, as well as the component units, is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	20-40
Public domain infrastructure	20
System infrastructure and improvements	10-70
Machinery and equipment	5-20
Access rights	50

City of Montague, Michigan

Notes to Financial Statements

Compensated Absences

City employees are granted vacation and sick leave in varying amounts based on length of service. Employees must use earned vacation time in the current calendar year. Upon termination, employees are paid for unused vacation at their current rates. Sick leave is accumulated at the rate of eight hours per month of employment up to 1,500 hours under the police contract and 1,200 hours for all other full-time City employees. Unused accumulated sick leave up to 30 days is paid at the employees' current rates to employees who resign and 60 days to employees who retire and have completed five continuous years of service with the City. A liability for sick pay is reported in the governmental funds only if the employee retires or resigns by the end of the fiscal year.

Long-Term Obligation

In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

City of Montague, Michigan

Notes to Financial Statements

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures.

2. Stewardship, Compliance and Accountability

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds except the capital projects funds, which adopt project-length budgets, and the permanent fund, which is not budgeted. All annual appropriations lapse at fiscal year end.

The City follows these procedures in establishing the budgetary information provided in the financial statements.

- a. Prior to June 30, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted at the City Hall to obtain taxpayer comments.
- c. Not later than the second Monday in June, the budget is legally enacted through passage of a resolution.

City of Montague, Michigan

Notes to Financial Statements

- d Supplemental appropriations, when required to provide for additional expenditures, are matched by additional anticipated revenues or an appropriation of available fund balance and must be approved by the City Council. All appropriations lapse at year end.

The appropriated budget is prepared by fund, function and department. The City's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the City Council. The legal level of budgetary control is the department level. The City Council made several supplemental budgetary appropriations throughout the year.

3. Deposits and Investments

Custodial Credit Risk Related to Deposits

The City will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the City will do business. At June 30, 2006, \$2,517,335 of the City's bank balances of \$3,017,335 were exposed to custodial credit risk as follows:

Uninsured and uncollateralized	<u>\$2,517,335</u>
--------------------------------	--------------------

Investments

The City invests certain funds in an external investment pool (Pool) required by bond covenants. The Pool is not regulated nor is it registered with the SEC. The Pool reports as of June 30, 2006, the fair value of the City's investments of \$9,748 is the same as the value of the Pool shares.

City of Montague, Michigan

Notes to Financial Statements

At June 30, 2006, the City had the following investments:

Investment	Maturity	Fair Value
Federal National Mortgage Association	7/15/2006	\$249,765
Federal Home Loan Bank	1/25/2007	247,265
Federal Home Loan Bank	7/5/2007	247,188
Total		\$744,218

Interest Rate Risk

The City will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the City's cash requirements.

Custodial Credit Risk Related to Investment

The City will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by limiting investments to the types of securities listed in the City's investment policy, pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the City will do business. All of the City's investments are held in the name of the City.

City of Montague, Michigan

Notes to Financial Statements

Concentration of Credit Risk

The City will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the City's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential loss from any one type of security or issuer will be minimized

Credit Risk

State statutes authorize the City to invest in obligations and certain repurchase agreements of the U.S. Treasury and related governmental agencies, commercial paper rated prime at the time of purchase, bankers acceptances and certificates of deposit issued or created by any state or national bank insured with the applicable federal agency, investment pools authorized by the Surplus Funds Investment Pool Act and mutual funds composed entirely of the above investments

The City's investment policy does not further limit its investment choices. At June 30, 2006 the City's investments in Federal National Mortgage Association and Federal Home Loan Bank notes were rated AAA by Moody's.

Foreign Currency Risk

The City is not authorized to invest in investments which have this type of risk.

City of Montague, Michigan

Notes to Financial Statements

4. Restricted Assets

Restricted Assets

Restrictions are placed on assets by bond ordinance and City Council action. At June 30, 2006, restricted cash and investments in the enterprise funds are restricted as follows:

Business-Type Activities	
Water Fund	
Repairs and replacement	\$ 53,036
Bond and interest redemption	48,920
	<hr/>
	101,956
Sewer fund	
Repairs and replacement	267,215
Bond and interest redemption	82,050
	<hr/>
	349,265
	<hr/>
	\$451,221
	<hr/>

City of Montague, Michigan

Notes to Financial Statements

5. Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Advances to/from other funds:

Receivable entity	Payable entity	Amount
General Fund	Campground Fund	\$50,000

Interfund transfers:

Transfers Out	Transfers in:			Total	Purpose
	General Fund	Major Street Fund	Other Governmental Funds		
General Fund	\$ -	\$ 164,000	\$ 158,083	\$ 322,083	Debt service, construction
Other Governmental Funds	5,664	-	20,000	25,664	Operations, construction
	\$ 5,664	\$ 164,000	\$ 178,083	\$ 347,747	

City of Montague, Michigan

Notes to Financial Statements

6. Capital Assets

Capital asset activities for the year ended June 30, 2006 was as follows:

Governmental Activities	Balance July 1, 2005	Increases	Decreases	Balance June 30, 2006
Capital assets, not being depreciated				
Land	\$ 801,775	\$ -	\$ -	\$ 801,775
Capital assets, being depreciated				
Land improvements	330,054	114,762	-	444,816
Buildings and other improvements	1,014,020	-	4,297	1,009,723
Machinery and equipment	1,560,729	63,598	581,199	1,043,128
Infrastructure	948,401	164,983	-	1,113,384
Total capital assets being depreciated	3,853,204	343,343	585,496	3,611,051
Less accumulated depreciation for:				
Land improvements	64,163	16,503	-	80,666
Buildings and other improvements	397,201	24,073	2,790	418,484
Machinery and equipment	820,739	105,224	212,754	713,209
Infrastructure	38,621	49,375	-	87,996
Total accumulated depreciation	1,320,724	195,175	215,544	1,300,355
Total capital assets, being depreciated, net	2,532,480	148,168	369,952	2,310,696
Capital Assets, Net	\$3,334,255	\$ 148,168	\$ 369,952	\$3,112,471

City of Montague, Michigan

Notes to Financial Statements

Business-Type Activities	Balance July 1, 2005	Increases	Decreases	Balance June 30, 2006
Capital assets, not being depreciated				
Land	\$ 73,200	\$ -	\$ -	\$ 73,200
Construction in progress	-	695,796	-	695,796
Total capital assets, not being depreciated	73,200	695,796	-	768,996
Capital assets, being depreciated				
Land improvements	272,067	59,253	-	331,320
Water and sewer systems	9,427,727	74,730	-	9,502,457
Buildings and other improvements	777,472	-	-	777,472
Machinery and equipment	199,686	-	-	199,686
Total capital assets being depreciated	10,676,952	133,983	-	10,810,935
Less accumulated depreciation for:				
Land improvements	79,539	7,481	-	87,020
Water and sewer systems	3,240,498	184,619	-	3,425,117
Buildings and other improvements	396,278	18,963	-	415,241
Machinery and equipment	192,632	1,924	-	194,556
Total accumulated depreciation	3,908,947	212,987	-	4,121,934
Total capital assets, being depreciated, net	6,768,005	(79,004)	-	6,689,001
Capital Assets, Net	\$6,841,205	\$ 616,792	\$ -	\$7,457,997

Component Units	Balance July 1, 2005	Increases	Decreases	Balance June 30, 2006
Tax Increment Finance Authority				
Capital assets, being depreciated				
Infrastructure	\$ -	\$ 46,279	\$ -	\$ 46,279
Less accumulated depreciation for:				
Infrastructure	-	512	-	512
Capital Assets, Net	\$ -	\$ 45,767	\$ -	\$ 45,767

City of Montague, Michigan

Notes to Financial Statements

Depreciation expense was charged to functions/programs of the primary government as follows:

Government Activities

General government	\$ 39,401
Public safety	65,645
Public works	25,255
Culture and recreation	9,050
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	55,824

Total Depreciation Expense - Governmental Activities \$ 195,175

Business-Type Activities

Sewer	\$ 107,748
Water	92,393
Other enterprise funds	12,846

Total Depreciation Expense - Business-Type Activities \$ 212,987

Component Units

Tax Increment Finance Authority	\$ 512
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City of Montague, Michigan

Notes to Financial Statements

7. Access Rights	Balance July 1, 2005	Increases	Decreases	Balance June 30, 2006
Sewer Fund				
Access Rights (40 years)	\$ 883,346	\$ -	\$ 16,515	\$ 866,831
Less accumulated amortization	(663,875)	(28,484)	-	(692,359)
Access Rights, Net of Accumulated Amortization	\$ 219,471	\$ (28,484)	\$ 16,515	\$ 174,472

8. Bond Issuance Costs	Balance July 1, 2005	Increases	Decreases	Balance June 30, 2006
Sewer Fund				
Issuance	\$ 34,161	\$ -	\$ -	\$ 34,161
Discount	1,884	-	-	1,884
Water Fund				
Issuance	20,764	-	-	20,764
Discount	2,456	-	-	2,456
Total Bond Issuance Cost	59,265	-	-	59,265
Less amortization				
Sewer over 152 months	3,794	2,845	-	6,639
Water over 218 months	1,704	1,278	-	2,982
	5,498	4,123	-	9,621
Total Bond Issuance Costs, Net of Accumulated Amortization	\$ 53,767	\$ (4,123)	\$ -	\$ 49,644

Amortization expense has been charged to the following functions:

Sewer	\$ 2,845
Water	1,278
	<u>\$ 4,123</u>

City of Montague, Michigan

Notes to Financial Statements

- 9. Deferred Revenue** Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the deferred revenue, which represented unearned revenue reported in the governmental funds were special assessments not yet available of \$2,467

- 10. Long-Term Debt** The following is a summary of long-term liabilities activity for the City for the year ended June 30, 2006

	Balance July 1, 2005	Increases	Decreases	Balance June 30, 2006	Due Within One Year
Governmental Activities:					
General obligation bonds	\$ 280,000	\$ -	\$ 35,000	\$ 245,000	\$ 35,000
Compensated absences	74,078	3,707	-	77,785	-
Governmental Activities - Long-Term Liabilities					
	\$ 354,078	\$ 3,707	\$ 35,000	\$ 322,785	\$ 35,000
Business-Type Activities:					
Revenue bonds	\$1,285,197	\$ -	\$122,991	\$1,162,206	\$116,227

City of Montague, Michigan

Notes to Financial Statements

Governmental Activities

General obligation bonds:

\$490,000 Michigan Transportation Fund bonds of 1997 due in annual installments of \$35,000 to \$50,000 through June 2012; plus interest at rates varying from 5 0% to 5 4%. \$ 245,000

Compensated absences 77,785

\$ 322,785

Business-Type Activities

Revenue bonds:

\$555,000 Water Supply System refunding bonds of 2004 due in annual installments of \$25,000 to \$45,000 through May 2022; plus interest at rates varying from 2.25% to 5%. \$ 515,000

\$665,000 Sewage Disposal System refunding bonds of 2004 due in annual installments of \$45,000 to \$65,000 through November 2016; plus interest at rates varying from 2% to 4% 595,000

Muskegon County Wastewater Management System No. 1 refunding bond of 2002 due in annual installments of \$25,979 to \$26,227 through July 2008; plus interest rates varying from 2.25% to 5.0%. 52,206

\$1,162,206

The general obligation bonds are backed by the full faith and credit of the City.

City of Montague, Michigan

Notes to Financial Statements

The 1996 and 2002 County of Muskegon wastewater contracts payable represent agreements with Muskegon County relating to the construction of sewage treatment facilities. To construct these facilities, the County issued bonds which local municipalities are obligated to repay. The City has recorded the liability for its portion of the County bonds which are to be repaid by the access rights fee. Access rights are also recorded and are amortized over 50 years. The contractual obligation is secured by the full faith and credit of the City. Current debt service requirements are funded by sewer revenues.

The 1996 and 2002 County of Muskegon wastewater contracts payable and the 2000 Water Supply revenue bonds are payable solely from the net revenues of the sewer and water supply directing the City to create funds restricted for use in the construction project and in debt service. Assets so restricted are detailed in Note 4.

The City was in compliance in all material respects with all the revenue bond ordinances at June 30, 2006.

City of Montague, Michigan

Notes to Financial Statements

Annual debt service requirements to maturity for bonded debt outstanding as of June 30, 2006 follows:

	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2007	\$ 35,000	\$ 12,800	\$ 116,227	\$ 41,055
2008	35,000	11,050	105,979	37,982
2009	40,000	9,265	80,000	34,826
2010	40,000	7,185	90,000	32,663
2011	45,000	5,085	75,000	30,158
2012-2016	50,000	2,700	415,000	109,410
2017-2021	-	-	235,000	41,900
2022	-	-	45,000	2,250
	\$245,000	\$ 48,085	\$1,162,206	\$ 330,244

11. Other Information

Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the government carries commercial insurance. Liabilities are reported when it is probable that a loss has occurred and the amount of the loss in excess of insurance coverage can be reasonably estimated. There has been no loss in excess of insurance in the past three years.

Contingent Liabilities/Grants

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal and state government. Any disallowed claims, including amounts already collected, may constitute a liability to the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

City of Montague, Michigan

Notes to Financial Statements

Post-Retirement Health Care

The City has agreed to provide post-retirement health care to certain full-time employees after they reach age 55 and have 20 years of service or age 60 and have 10 years of service. The City will pay between 60 percent and 100 percent of the premium depending on the employee's age and length of service.

As of year end, there were two retired employees receiving benefits. The City finances the Plan on a pay-as-you-go basis. For the year ended June 30, 2006, the City's post-retirement health care cost under the Plan was approximately \$19,100.

Jointly Governed Organization

The City, in conjunction with other governmental entities, created the White Lake Solid Waste Authority (WLSWA) to operate a solid waste transfer station, the White Lake Ambulance Authority (WLAA) to provide ambulance services and the Montague Fire District to provide emergency services.

Commitments

During the year ended June 30, 2006, the City entered into an agreement for water line construction of approximately \$970,700. The remaining balance on the contract at June 30, 2006 was approximately \$141,100. In addition, the City entered into an agreement for street reconstruction of approximately \$138,800. The remaining balance on the contract at June 30, 2006 was approximately \$49,600.

City of Montague, Michigan

Notes to Financial Statements

12. Employee Retirement System and Pension Plan

Plan Description. The City of Montague is in an agent multiple-employer defined benefit pension plan with the Municipal Employees Retirement System (MERS), administered by the State of Michigan. The Plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to Plan members and beneficiaries. Act No. 427 of the Public Acts of 1984 of the State of Michigan assigns the authority to establish and amend the benefit provisions of the plans that participate in MERS to the respective employer entities; that authority rests with the City of Montague. A copy of the complete financial report and required supplemental information can be obtained by writing to:

City of Montague
8778 Ferry Street
Montague, MI 49437

Funding Policy. City employees are required to contribute 5 percent to the Plan. The City is required to contribute at an actuarially-determined rate depending upon position from 6.95 to 8.61 percent of covered wages.

Annual Pension Cost. For the year ended June 30, 2006, the City's annual pension cost was approximately \$67,000 which the City contributed. The required contribution was determined as part of the December 31, 2003 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 8 percent investment rate of return (net of administrative expenses), (b) projected salary increases ranging from 8 percent to 4.5 percent, and (c) 4.5 percent per year compounded annually attributable to inflation. The actuarial value of plan assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period.

City of Montague, Michigan

Notes to Financial Statements

Three-Year Trend Information

Year Ending	Approximate Annual Pension Cost (APC)	Percent of APC Contributed	Net Pension Obligation
6/30/04	\$31,000	100%	\$ -
6/30/05	67,000	100%	-
6/30/06	67,000	100%	-

Required Supplemental Information

Schedule of Funding Progress

(Dollar amounts in thousands)

Actuarial Valuation as of December 31,	2003	2004	2005
Actuarial value of assets	\$ 1,538	\$ 1,684	\$ 1,849
Actuarial accrued liability			
(AAL) Entry Age	1,905	2,114	2,306
Unfunded AAL (UAAL)	367	430	457
Funded ratio	81%	80%	80%
Covered payroll	\$ 721	\$ 707	\$ 762
UAAL as a percentage of covered payroll	50.9%	60.8%	60.0%

13. Economic Dependency

State of Michigan shared revenues represent 13 percent of General Fund revenues

The City's Water Supply Fund has a significant economic dependence on a local corporation that is a major taxpayer and user of water services. During the year ended June 30, 2006, the corporation's billings for water usage approximated 9 percent of total billings in the Water Supply Fund and 29 percent for property taxes.

City of Montague, Michigan

Notes to Financial Statements

- 14. Excess of Expenditures Over Appropriations in Budgetary Funds**
- During the year ended June 30, 2006, the City incurred expenditures in various funds which were in excess of amounts appropriated, as follows:

	Appropriation	Actual Expenditures
General Fund		
Public Works Control	\$79,610	\$81,431
Major Street Fund		
Construction	126,149	141,330

- 15. Reconciliation of Capital Outlay**
- Capital outlay expenditures for governmental funds differ from amounts capitalized. The differences are detailed as follows:

Total capital purchases as reported in the governmental funds	\$340,411
Expenditures under the capitalization limit	(15,010)
Net Assets capitalized	\$325,401

- 16. Restatement of Net Assets**
- During the year ended June 30, 2006, the City discovered that certain adjustments were required to be made to the beginning net assets previously reported in the financial statements for the governmental activities to correct an error in interest receivable made in prior years. The result of the adjustment was to decrease beginning net assets in the governmental activities from \$5,766,165 to \$5,668,506.

Required Supplemental Material



City of Montague, Michigan

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund

Year ended June 30, 2006	Budgeted amounts		Actual	Variance with
	Original	Final		Final Budget -
				Positive (Negative)
Revenues				
Property taxes	\$1,407,053	\$1,407,053	\$1,341,038	\$ (66,015)
Licenses and permits	15,330	16,830	17,088	258
Intergovernmental revenues				
State	210,265	210,265	230,147	19,882
Local	1,327	1,327	1,405	78
Charges for services	43,652	43,652	38,744	(4,908)
Fines and forfeitures	7,300	7,300	9,367	2,067
Investment earnings	30,604	47,604	41,711	(5,893)
Other	45,027	92,472	116,593	24,121
Total Revenues	1,760,558	1,826,503	1,796,093	(30,410)
Expenditures				
Current				
General government				
Council	20,925	20,925	15,965	4,960
Administration	83,903	98,533	94,477	4,056
Administrative Assistant	57,955	62,855	59,569	3,286
Election Commission	8,255	8,255	2,979	5,276
Clerk	74,292	79,771	73,707	6,064
Equalization	17,000	17,000	16,909	91
Employee Safety Committee	550	550	379	171
Board of Review	1,291	1,291	724	567
Other	44,550	44,550	30,238	14,312
Treasurer	47,430	50,515	49,548	967
Computer/Xeroxing	15,000	15,000	11,696	3,304
Building and grounds	35,016	44,776	53,389	(8,613)
Community buildings	1,069	1,069	274	795
Parking lot	2,354	2,354	1,682	672
Cemetery	82,654	86,454	77,097	9,357
Public safety				
Public safety	108,396	108,396	100,023	8,373
Police	500,674	521,444	504,798	16,646

City of Montague, Michigan

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund

Year ended June 30, 2006	Budgeted amounts		Actual	Variance with Final Budget - Positive
	Original	Final		(Negative)
Expenditures - Continued				
Current - continued				
Public safety - continued				
Planning Commission	\$ 1,150	\$ 1,150	\$ 310	\$ 840
Zoning Board of Appeals	700	700	672	28
Public works				
Public works	66,360	79,610	81,431	(1,821)
Sidewalks	8,768	8,768	5,123	3,645
Sidewalk repair and construction	24,000	24,000	-	24,000
Community and economic development				
Economic development	3,500	3,500	-	3,500
Culture and recreation				
Parks	87,427	97,252	85,666	11,586
Library	21,675	21,675	19,839	1,836
Other	13,218	13,218	6,732	6,486
Other governmental functions	95,814	70,510	40,372	30,138
Capital outlay	71,778	77,528	46,839	30,689
Total Expenditures	1,495,704	1,561,649	1,380,438	181,211
Excess of Revenues Over Expenditures	264,854	264,854	415,655	150,801
Other Financing Sources (Uses)				
Transfers in	44,500	44,500	5,664	(38,836)
Transfers out	(307,083)	(307,083)	(322,083)	(15,000)
Proceeds from sale of fixed assets	2,500	2,500	5,252	2,752
Total Other Financing Uses	(260,083)	(260,083)	(311,167)	(51,084)
Net Change in Fund Balance	\$ 4,771	\$ 4,771	104,488	\$ 99,717
Fund Balance, at beginning of year			984,487	
Fund Balance, at end of year			\$1,088,975	

City of Montague, Michigan

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Major Street Fund

Year ended June 30, 2006	Budgeted amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Intergovernmental revenues - State	\$ 170,813	\$ 170,813	\$ 162,334	\$ (8,479)
Charges for services	100	100	1,671	1,571
Investment earnings	1,200	1,200	6,410	5,210
Total Revenues	172,113	172,113	170,415	(1,698)
Expenditures				
Current				
Public works	153,445	153,445	140,775	12,670
Capital outlay	126,149	126,149	141,330	(15,181)
Total Expenditures	279,594	279,594	282,105	(2,511)
Excess of Revenues Over (Under)				
Expenditures	(107,481)	(107,481)	(111,690)	(4,209)
Other Financing Sources				
Transfers in	164,000	164,000	164,000	-
Net Change in Fund Balance	\$ 56,519	\$ 56,519	52,310	\$ (4,209)
Fund Balance, at beginning of year			234,266	
Fund Balance, at end of year			\$ 286,576	

City of Montague, Michigan

Required Supplementary Information for Pension Plans - GASB 27

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
December 31:						
2003	\$ 1,538	\$ 1,905	\$ 367	81%	\$ 721	50.9%
2004	1,684	2,114	430	80%	707	60.8%
2005	1,849	2,306	457	80%	762	60.0%

<i>June 30, 2006</i>	Total Non-Major Governmental Funds	Local Streets	Small Cities Grant Revolving
Assets			
Cash and investments	\$ 672,287	\$170,048	\$176,871
Due from other governmental units	80,836	10,145	-
Total Assets	\$ 753,123	\$180,193	\$176,871
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 38,415	\$ 23,722	\$ -
Accrued liabilities	2,061	-	-
Total Liabilities	40,476	23,722	-
Fund balances			
Reserved for			
Debt service	5,994	-	-
Perpetual care	170,782	-	-
Unreserved			
Designated - special revenue funds	74,650	-	-
Undesignated - special revenue funds	376,375	156,471	176,871
Undesignated - capital project fund	84,846	-	-
Total Fund Balances	712,647	156,471	176,871
Total Liabilities and Fund Balances	\$ 753,123	\$180,193	\$176,871

City of Montague, Michigan

Combining Balance Sheet - Non-Major Governmental Funds

Special Revenue Funds						Permanent Fund
White Lake Area Building Board	Montague Fire District	Public Projects	Employee Benefit Plan	Capital Project	Debt Service	Cemetery Perpetual Care
\$ 38,403	\$ -	\$ 15,385	\$ 74,650	\$ 20,154	\$ 5,994	\$170,782
-	-	-	-	70,691	-	-
\$ 38,403	\$ -	\$ 15,385	\$ 74,650	\$ 90,845	\$ 5,994	\$170,782
\$ 10,755	\$ -	\$ -	\$ -	\$ 3,938	\$ -	\$ -
-	-	-	-	2,061	-	-
10,755	-	-	-	5,999	-	-
-	-	-	-	-	5,994	-
-	-	-	-	-	-	170,782
-	-	-	74,650	-	-	-
27,648	-	15,385	-	-	-	-
-	-	-	-	84,846	-	-
27,648	-	15,385	74,650	84,846	5,994	170,782
\$ 38,403	\$ -	\$ 15,385	\$ 74,650	\$ 90,845	\$ 5,994	\$170,782

<i>Year ended June 30, 2006</i>	Total Non-Major Governmental Funds	Local Streets	Small Cities Grant Revolving
Revenues			
Licenses and permits	\$ 63,425	\$ -	\$ -
Intergovernmental revenues			
Federal	70,690	-	-
State	71,639	71,639	-
Charges for services	206,498	-	-
Investment earnings	35,900	3,864	8,693
Other	4,363	-	-
Total Revenues	452,515	75,503	8,693
Expenditures			
Current			
Public safety	208,290	-	-
Public works	85,871	79,871	6,000
Debt service			
Principal	35,000	-	-
Interest and fees	15,550	-	-
Capital outlay	152,242	23,653	-
Total Expenditures	496,953	103,524	6,000
Excess of Revenues Over (Under) Expenditures	(44,438)	(28,021)	2,693
Other Financing Sources (Uses)			
Transfers in	178,083	54,283	-
Transfers out	(25,664)	-	-
Contributions to other governmental units	(358,789)	-	-
Total Other Financing Sources (Uses)	(206,370)	54,283	-
Net Change in Fund Balances	(250,808)	26,262	2,693
Fund Balances, at beginning of year	963,455	130,209	174,178
Fund Balances, at end of year	\$ 712,647	\$156,471	\$176,871

City of Montague, Michigan

Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Non-Major Governmental Funds

Special Revenue Funds						Permanent Fund
White Lake Area Building Board	Montague Fire District	Public Projects	Employee Benefit Plan	Capital Project	Debt Service	Cemetery Perpetual Care
\$ 63,425	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	70,690	-	-
-	-	-	-	-	-	-
18,203	168,510	16,650	-	-	-	3,135
1,252	10,819	928	2,408	1,902	370	5,664
-	4,363	-	-	-	-	-
82,880	183,692	17,578	2,408	72,592	370	8,799
87,730	120,560	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	35,000	-
-	-	-	-	-	15,550	-
-	13,827	-	-	114,762	-	-
87,730	134,387	-	-	114,762	50,550	-
(4,850)	49,305	17,578	2,408	(42,170)	(50,180)	8,799
-	-	-	-	75,000	48,800	-
-	-	(20,000)	-	-	-	(5,664)
-	(358,789)	-	-	-	-	-
-	(358,789)	(20,000)	-	75,000	48,800	(5,664)
(4,850)	(309,484)	(2,422)	2,408	32,830	(1,380)	3,135
32,498	309,484	17,807	72,242	52,016	7,374	167,647
\$ 27,648	\$ -	\$ 15,385	\$ 74,650	\$ 84,846	\$ 5,994	\$ 170,782

City of Montague, Michigan

Combining Statement of Net Assets - Non-Major Enterprise Funds

<i>June 30, 2006</i>	Total Non-Major Enterprise Funds	Boat Launching Ramp	Campground
Assets			
Current Assets			
Cash and investments	\$141,031	\$103,289	\$ 37,742
Non-Current Assets			
Capital assets, net	367,023	151,842	215,181
Total Assets	508,054	255,131	252,923
Liabilities and Net Assets			
Liabilities			
Accounts payable	3,596	90	3,506
Deferred revenue	2,832	-	2,832
Advances from other funds	50,000	-	50,000
Total Liabilities	56,428	90	56,338
Net Assets			
Invested in capital assets, net of related debt	367,023	151,842	215,181
Unrestricted	84,603	103,199	(18,596)
Total Net Assets	\$451,626	\$255,041	\$196,585

City of Montague, Michigan

Combining Statement of Revenues, Expenses and Changes in Net Assets - Non-Major Enterprise Funds

<i>Year ended June 30, 2006</i>	Total Non-Major Enterprise Funds	Boat Launching Ramp	Campground
Revenues			
Charges for services	\$165,471	\$ 46,859	\$118,612
Operating Expenses			
Administration	3,019	3,019	-
Operations	128,006	14,809	113,197
Depreciation	12,846	6,962	5,884
Total Operating Expenses	143,871	24,790	119,081
Operating Income (Loss)	21,600	22,069	(469)
Non-Operating Revenues			
Investment income	4,295	2,906	1,389
Change in Net Assets	25,895	24,975	920
Net Assets, at beginning of year	425,731	230,066	195,665
Net Assets, at end of year	\$451,626	\$255,041	\$196,585

City of Montague, Michigan

Combining Statement of Cash Flows - Non-Major Enterprise Funds

<i>Year ended June 30, 2006</i>	Total Non-Major Enterprise Funds	Boat Launching Ramp	Campground
Cash Flows from Operating Activities			
Receipts from customers	\$143,120	\$ 46,859	\$ 96,261
Payments to suppliers	(96,943)	(13,272)	(83,671)
Payments to employees	(33,683)	(5,789)	(27,894)
Net Cash Provided by (Used for) Operating Activities	12,494	27,798	(15,304)
Cash Flows from Non-Capital and Related Financial Activities			
Advances from other funds	50,000	-	50,000
Cash Flows from Capital and Related Financial Activities			
Purchase of capital assets	(59,252)	-	(59,252)
Cash Flow from Investing Activities			
Investment income	4,295	2,906	1,389
Net increase (decrease) in cash and investments	7,537	30,704	(23,167)
Cash and Investments, at beginning of year	133,494	72,585	60,909
Cash and Investments, at end of year	\$141,031	\$103,289	\$ 37,742
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities			
Operating income (loss)	\$ 21,600	\$ 22,069	\$ (469)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities			
Depreciation	12,846	6,962	5,884
Change in assets and liabilities			
Accounts payable	1,467	(165)	1,632
Deferred revenue	(22,351)	-	(22,351)
Accrued expenses	(1,068)	(1,068)	-
Net Cash Provided by (Used for) Operating Activities	\$ 12,494	\$ 27,798	\$(15,304)

City of Montague, Michigan

ANNUAL FINANCIAL STATEMENTS

Management Letter

Year ended June 30, 2006

Honorable Mayor and
Members of the City Council
City of Montague, Michigan

During the course of our audit of the financial statements of the City of Montague, Michigan as of June 30, 2006 and for the year then ended, we observed the City's significant accounting policies and procedures and certain administrative, and financial practices.

As a result of our observations, we have prepared for management's review and evaluation, the enclosed memorandum containing suggestions regarding internal control, financial and administrative practices of the City of Montague, Michigan.

Matters which related to internal accounting control were not of a magnitude that would effect the presentation of the financial statements.

We appreciate the cooperation from management and the staff of the City of Montague, Michigan that our personnel received during the audit.

Pridnia Lapres, PLLC

September 1, 2006

City of Montague, Michigan

Current Year Comments

Periodic Change of Passwords

During our audit of the City for the year ended June 30, 2006, we noted that computer logon passwords are not currently required to be changed

Recommendation

We recommend that passwords be changed on a periodic basis (e g., every 60 days) to maintain security on employee computers.

Records for Property and Equipment

During our audit of the City for the year ended June 30, 2006, we noted that the fixed asset and depreciation records were not being maintained for capitalized items in all funds. In addition, we noted that the fixed asset detail maintained by the City did not agree with the audited financial statements of the City.

Recommendation

We recommend that the City acquire a software package to track all fixed assets of the City and agree to the accounting records on a monthly basis. We also recommend that fixed asset and depreciation records be maintained for fixed assets of all funds of the City

Recording Capital Asset Additions

During our audit of the City for the year ended June 30, 2006, we noted that all governmental fund capital asset purchases are being recorded as capital outlay, even if they are below the established capitalization threshold. This creates additional work for employees when analyzing the general ledger capital outlay accounts to determine which assets to capitalize

Recommendation

We recommend that the City create a separate capital outlay account in each applicable fund to track asset purchases below the capitalization threshold. This will improve efficiencies when creating fixed asset records and result in an easier reconciliation between the general ledger and fixed asset records